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# Eternal vigilance

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any of the stock was sold for cash.

The most scientific method would probably be to take the average estimated net earnings for the first three or five years, preferably three years, and considering one-half of this amount to arise from the contract, capitalize that figure at six or eight per cent., preferably six. Halving the net earnings is of course arbitrary, but it is founded on the theory that there is no logical basis for apportionment of the net earnings as between the capital invested in plant, equipment, etc., and the contract. It might logically be contended that the equipment would be of no avail in connection with the manufacture of this particular article without the contract. On the other hand the contract is of no

operating value without the equipment. Whether two-thirds of the net earnings may properly be imputed to the contract and one to the capital invested in equipment or *vice versa*, no one is in position to say, and it therefore seems logical to divide the earnings equally as between the contract and capital invested in equipment.

Regardless of the method employed, it seems desirable that the capitalization of the contract should be made as conservative in amount as possible, for the reason that later some other board may take the position that the contract is over-valued and move to reduce the value. Here would arise, probably, the serious question as to the right of directors to reduce the stated capital without due process of law.

(To be continued)

## Eternal Vigilance

A CASE has recently been reported wherein irregularities on the part of a treasurer of a corporation located outside of New York City were detected by public accountants through using envelopes bearing their own return card instead of that of the client in sending out confirmations to banks.

The irregularities had occurred in part as follows: The treasurer maintained a fictitious bank account with a fictitious bank in New York City; for example, the Herald Square Bank. This account was a dormant one. Previous to the audit conducted by the accountants in question the audit work had been done for several years by another firm of accountants which had always used envelopes bearing the imprint of the client in sending out for confirmations. There being no such bank in existence as the Herald Square Bank, the post office department, obviously not being able to locate the bank, returned the letter to the client.

The treasurer, receiving the returned letter, opened it; completed the confirmation, signing a fictitious name as representing an official of the Herald Square Bank, inserted the confirmation in the envelope bearing the accountants' corner card and brought the envelope to New York City where it was mailed, reaching the accountants in due course of mail delivery. By this method the treasurer is said to have concealed a considerable shortage for a number of years.

While there is no reason to doubt the facts as reported in this case, it appears that accountants examining the accounts from year to year and finding the dormant account, probably increasing in amount from year to year, should have been on notice to make a more careful investigation than might usually be the case where an account of this kind is found.

A famous quotation might be paraphrased in its application to accountancy so as to read, "Eternal vigilance is the price

of success." This case is a striking illustration of the risk which the accountant

constantly runs. But a little risk sometimes adds zest to a task.

## Mr. Padon, of Shanghai, Is Interviewed—

(An Interview by LUCY MAY MARQUIS, in the *Tulsa Tribune* of March 28, 1923)

**W**IVES! If your husband is offered a job in China—don't discourage him. Let him accept it, and you won't have to work any more.

B. A. Padon, assistant manager of the Shanghai office of Haskins & Sells, certified public accountants, who is here for a short visit with relatives, didn't give that advice in those words, but any woman would draw that conclusion from what he did say.

"The average household has at least three servants," he said. "A cook, a boy and a coolie. The boy might be considered a butler, and the coolie a janitor. The cost for the three of them is about \$16 gold a month. The Chinese make wonderful servants."

Then he talked about food. He has become "Orientized" to the extent that he certainly has queer tastes. He likes sharks' fins, and lions' hearts, and 1,000-year-old eggs! At least, he said he did, and it is not to be supposed that he imposed upon an interviewer's credulity.

"Of course, I wouldn't like them all the time," he explained, "but you can't get them all the time. That sort of food is served only at very formal Chinese dinners, and cannot be ordered promiscuously at any restaurant.

"They make preparations for these dinners as far as a month ahead, and spare no time or effort to prepare these delicacies. Sharks' fins look like very fine macaroni. And the eggs are probably really not 1,000 years old, but they're supposed to be. They bury them for years, and then when they're served they are either black or blue and look like marbles.

"Preparation of powdered eggs and dried eggs is one of their big industries. Every home in China has a few hens," and he smiled as he added, "both literally and figuratively."

The Chinese are very fine cooks, and can invent dishes out of almost anything, according to Padon, who said he had tasted ten different soups made out of things that would never occur to an American cook as material for soups.

"Chop Suey is purely an American dish with a Chinese name," he said. "They don't have anything like it over there."

Then he talked about women, by suggestion. "The Chinese (and Japanese) show the women their place," he said. "They keep 'em at home to do household duties while the men go out and enjoy themselves."

But his eyes were twinkling when he made that rather revolutionary statement for a modern American man, so he must not have meant it seriously.

"The women wear trousers, but it doesn't mean anything. It doesn't infer that they boss the household. They wear short coats, but the men wear very long ones, and feel that they are not properly robed in a short coat.

"You ought to have 'rickshaws over here," he said. "I miss them. They're very convenient. You can pick them up on every corner, and go any place you wish for a sum that would be about fifteen cents gold an hour in this country. There are about 20,000 in Shanghai."

And he explained why the Chinese have quit wearing their queues. "They cut